Department of Energy
Washington, DC 20585
MEMORANDUM

IPI III-01-05

Date: JAN 5 2005

To: Field Patent Counsels

From: Paul A. Gottlieb, GC-62

Re: M&O "click wrap" software licenses

INTRODUCTION

The purpose of this IPI is to set forth the opinion of GC-62 with respect to U.S. Trade Representative (USTR) review of click wrap software licenses to foreign entities. Based on the reasons set forth below, it is our opinion that click wrap software licenses, which do not involve software to be used in a manufacturing process, do not require consultation with the USTR before licensing an entity subject to the control of a foreign company or government.

BACKGROUND

Department of Energy (DOE) Management and Operating (M&O) contractors who engage in technology transfer are required to abide by U.S. Industrial Competitiveness provisions contained in their prime contracts with DOE. The language below is contained within the Technology Transfer Mission clause, 48 CFR 970-5227-3(f) of each contract for the management and operation of a DOE laboratory, where technology transfer is a mission of the laboratory. Historically, this language has been interpreted to necessitate DOE contractors to submit **all** proposed intellectual property licenses involving foreign companies, including software licenses, to the USTR for review, prior to licensing.

> *(f) U.S. Industrial Competitiveness.*
>
> *(1) In the interest of enhancing U.S. Industrial Competitiveness, the Contractor shall, in its licensing and assignments of Intellectual Property, give preference in such a manner as to enhance the accrual of economic and technological benefits to the U.S. domestic economy.* ***The Contractor shall consider the following factors in all of its licensing and assignment decisions*** *involving Laboratory intellectual property where the Laboratory obtains rights during the course of the Contractor's operation of the Laboratory under this contract:*
>
> *(I) whether any resulting design and development will be performed in the United States and whether resulting products, embodying parts, including components thereof, will be substantially manufactured in the United States; or*
>
> *(ii) (A) whether the proposed licensee or assignee has a business unit located in the United States and whether significant economic and technical benefits will flow to the United States as a result of the license or assignment agreement; and* ***(B) in***

licensing any entity subject to the control of a foreign company or government, whether such foreign government permits United States agencies, organizations or other persons to enter into cooperative research and development agreements and licensing agreements, and has policies to protect United States Intellectual Property rights.

(2) If the Contractor determines that neither of the conditions in paragraphs (f)(1)(I) or (ii) of this clause are likely to be fulfilled, the Contractor, prior to entering into such an agreement, must obtain the approval of the contracting officer. The contracting officer shall act on any such requests for approval within thirty (30) days.

(3) The Contractor agrees to be bound by the provisions of 35 U.S.C. 204 (Preference for United States industry).

The highlighted portions above are based upon Executive Order12591, Section 4, dated April 10, 1987, which states:

> *Sec. 4. International Science and Technology. In order to ensure that the United States benefits from and fully exploits scientific research and technology developed abroad, (a) The head of each Executive department and agency, when negotiating or entering into cooperative research and development agreements and licensing arrangements with foreign persons or industrial organizations (where these entities are directly or indirectly controlled by a foreign company or government), shall, in consultation with the United States Trade Representative, give appropriate consideration: (1) to whether such foreign companies or governments permit and encourage United States agencies, organizations, or persons to enter into cooperative research and development agreements and licensing arrangements on a comparable basis; (2) to whether those foreign governments have policies to protect the United States intellectual property rights ...*

The provisions of Executive Order 12591 do not explicitly govern licensing transactions of DOE M&O contractors. However, when DOE implemented the laboratory technology transfer mission by promulgation of the Technology Transfer Mission clause, DOE chose to require conformance, even in licensing, with the standard established by the above-quoted section of Executive Order 12591 through the inclusion of paragraph (f) in the Technology Transfer Mission clause. Further, DOE has advised its M&O contractors that the information necessary to make the judgments required by the Technology Transfer Mission clause, paragraph (f) can be obtained from the USTR (e.g., see the DOE CRADA Manual at Article XXII and IPI II-2-98, issued September 2, 1998.)

The closest statutory support for the U.S. manufacturing requirement of Executive Order 12591 exists in the Bayh-Dole Act (*35 USC §204*), which addresses including in exclusive licenses of subject inventions (not software) a U.S. preference clause requiring that products embodying a subject invention or produced through the use of the subject invention will be manufactured substantially in the U.S.

Also, the National Competitiveness Technology Transfer Act (*Sections 3131, 3132, 3133, and 3157 of Pub. L. 101-189, as amended by Pub. L. 103-160, Sections 3134 and 3160, at 15 USC §3710a*) supports U.S. industrial competitiveness in CRADAs (not licenses) by (1) requiring that preference for entering into CRADAs be given to business units located in the U.S. that agree to substantial manufacture in the U.S., and (2) for CRADAs with foreign participants, requiring consideration of reciprocity on the part of the associated foreign government. Finally, 35 USC §209 defines a Government licensing standard requiring licenses of federally-owned inventions to include a requirement for substantial U.S. manufacture.

In practice, in accordance with Executive Order 12591 and the related statutes, the USTR evaluates whether the foreign country allows U.S. companies similar license opportunities and whether the foreign country has policies in place to protect U.S. intellectual property rights (the reciprocity component of the U.S. competitiveness consideration). The Technology Transfer Mission clause, Paragraph (f), provides that input from the USTR may be used by the contractor in establishing a preference, not a bar, to the selection of a licensee. The USTR's opinion is to be considered by the laboratory along with other factors in deciding whether or not to grant the license.

In 1990, after Executive Order 12591 was promulgated, M&O contractors' technology transfer programs were undeveloped. As a matter of policy choice, the Technology Transfer Mission clause for DOE M&O contracts was deliberately developed with a broader scope than either the Executive Order or the supporting statutes.

In the years since the promulgation of the Executive Order and the current contractual USTR requirement, DOE laboratory technology transfer programs have matured and the distribution of computer software has evolved. The experience gained over the last 15 years supports reconsideration of our interpretation of the Technology Transfer Mission clause, 48 CFR 970-5227-3(f) DOE's with respect to consultation with USTR when licensing computer software. First, for all types of licenses, the USTR has rarely objected to a proposed license with a foreign entity. Further, DOE has recently approved an Open Source software policy for its contractors where the USTR review is not required. Additionally, when assertion of copyright on software for commercialization purposes is approved by DOE, the Energy Science and Technology Software Center (ESTSC) obtains the software for distribution upon request, and for ESTSC distribution to foreign entities, no USTR review is required. Finally, the requirement for a USTR opinion regarding the substantial manufacturing consideration is obviated by the inclusion in the license of a substantial U.S. manufacture requirement.

PROPOSAL

M&O contractors are making copyrighted software available for nonexclusive licensing by means of the internet, using "click wrap" licenses. For purposes of this memorandum, a click wrap license is a non-exclusive license where the license to the software is established over the internet for a fixed fee, or at no cost, under non-negotiable terms and conditions. Click wrap licenses are similar to open source software distribution (which is also provided via the internet but without collection of a license fee). The Internet posting for a click wrap license constitutes an offer of a license. Acceptance of the license by the licensee over the Internet occurs by the prospective licensee's either clicking on an acceptance button on a web page or downloading a nonnegotiable license document from a web page and faxing an executed license document to the laboratory, thus forming a binding contract.

The question has arisen as to whether consultation with the USTR is required by 48 CFR 970-5227-3(f), the Technology Transfer Mission clause, for click wrap licenses to foreign entities. Unlike Government-owned, Government-operated laboratories at most other Government agencies, DOE's contractor-operated laboratories have the ability to assert copyright in software authored by laboratory employees. To our knowledge, DOE is the only agency that has subjected laboratory software licensing to consultation with USTR. Therefore, this issue is unique to DOE.

There are a number of reasons to eliminate USTR review for click wrap licenses. Click wrap licenses are used to distribute high-demand software at reduced time and cost. Because of the nature of these licenses, it is not feasible to require USTR consultation before issuance of a click wrap license to a foreign entity. At the point of execution of the license, it is too late to send the license to the USTR for comment. Also, the wide-spread availability inherent in Internet- type licensing eliminates any real ability to control the licensing, e.g., by means of the USTR review. However, since the subject matter of these licenses is software and not physical product, if, before licensing, the software selected for click wrap licensing has been determined by the contractor to be suitable for unlimited, world-wide distribution with no export control concerns or national security concerns, foreign release of these licenses should present no threat to the "...accrual of economic or technological benefits to the U.S. domestic economy" or to U.S. manufacturing potential. Finally, the nonexclusive nature of such licenses assures that any interested U.S. company will be able to get a license. Click wrap licenses were not a part of a laboratory's technology transfer program at the time the policy embodied in the Technology Transfer Mission clause was established.

Guidance is necessary as to how the Technology Transfer Mission clause should be interpreted as applied to click wrap licenses. In light of the factors cited above the Technology Transfer Mission clause issuance of a click wrap software licenses does not require consultation with the USTR before licensing an entity subject to the control of a foreign company or government. Therefore, under 48 CFR 970-5227-3(f), the Technology Transfer Mission clause, where, prior to deciding to post software as available under a click wrap license, the M&O contractor (1) determines that the technology(ies) involved in the subject license(s) is suitable for unlimited distribution with no security or export control concerns and (2) considers and documents the impact of such licensing on US competitiveness, national security and export control, USTR review is no longer required, with one exception described below. Consideration of the impact on U.S. competitiveness should focus on the intended use of the software. Documentation must be available for review by DOE upon request.

Software that is specifically intended for use as part of a manufacturing process and is not software with more general application, even if licensed over the Internet, must still involve individual consultation with USTR. Although such software may not involve a classification or export control issue, any piece of software that focuses on a manufacturing process, improves a process, improves quality control, or aids in the research and development of a better product line could, if licensed overseas, have a substantial negative impact on U.S. manufacture or U.S. competitiveness. Examples of click wrap licensing situations where USTR review may or may not be appropriate are set forth in Attachment A.

ATTACHMENT A

The following software, by subject matter, **is** appropriate for click wrap licensing without USTR review:

- o A mesh generation code for modeling and simulation that is research-related, links the laboratory to cutting edge computer modeling research around the world, and facilitates communication with the worldwide research community in key areas.

The following types of software codes, by subject matter, are **not** appropriate for click wrap licensing without USTR review:

- o An application of science-based codes for understanding of the welding process to develop optimal mechanized welding procedures.

- o Software codes that support design of devices utilizing Contractor manufacturing processes, software, and technology related to the manufacture of, and improved manufacturing processes for, weapon components and micromachine structures.